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STAFF NOTES:

Middle East
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MIDDLE EAST – AFRICA – SOUTH ASIA

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Libya

Oil Prices Cut Again to Stimulate Sales

Libya has cut oil prices for the third time this year to stimulate sales; output plummeted to an 11-year low in February. The government sale and buyback price on crude oil was cut by 30 cents per barrel to $11.40, effective April 1. The cost of the producing companies' equity oil fell by about 55 cents per barrel. Average company costs of Libyan crude are expected to be about $11.20.

Libya thus has recognized not only the need to cut the price of government oil, but also the need to give foreign oil companies incentives to boost production. If output is to rise substantially, Libya must sell more oil in markets traditionally controlled by the international companies. The state oil company has been unable to maintain sales of its overpriced oil in recession-hit international markets.

The two earlier price cuts came in January and February. The cut in January followed the pattern endorsed at the meeting of the Organization of Petroleum Exporting Countries in December. The overall effect was to leave average company costs essentially unchanged at about $11.70 per barrel, but to reduce the direct sale price of the government oil from $12.50 to $11.86. In February, Libya reduced the buyback and direct sales price of some of its lower quality crudes.

Despite the two earlier price cuts, production declined by 13 percent, to 920,000 barrels per day, in February. Output in 1974 averaged about 1.5 million barrels per day.

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Iran

The Soviet Presence

The Shah's reputation as an anti-communist ally of the West tends to mask the extent of his accommodation with his northern neighbor, the Soviet Union. Although still deeply suspicious of Moscow, the Shah, since the early 1960s, has recognized the need to keep relations on an even keel, and he has succeeded in doing so. The basis for this relationship was laid in 1962 when Moscow accepted a unilateral pledge from Tehran that it would not permit the establishment of foreign missile bases in Iran. Moscow in return offered to end its propaganda against the Shah. Since then economic relations have been gradually expanded. The Shah holds regular consultations with Soviet leaders; the last occured in November 1974. [redacted] 25X1 25X1

There are approximately 5,000 Soviets in Iran, including dependents. They are widely dispersed geographically and connected with virtually every phase of Iranian industrial and commercial activity. In comparison, there are 16,000 US nationals resident in Iran. The official Soviet community numbers about 360, a slight increase over 1974. [redacted] About 60 Soviet military specialists are training Iranians in the use of routine Soviet military equipment such as transport and conventional artillery. Other Soviets in Iran are connected with a wide variety of activities ranging from banking to gas and petroleum. 25X1 25X1

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The largest group of Soviet specialists--about 550--is attached to the Soviet-built Aryamehr steel mill in Isfahan. The mill was constructed in the late 1960s under a $289 million Soviet credit, which also provided for a natural gas pipeline to the USSR.

The mill has operated well below capacity. It has been in perodic danger of shutting down since August 1974 because of delays in the arrival of coal from Europe. The coal transits the Soviet Union, entering Iran by rail at the northern border town of Jolfa, where it must be transfered from the Soviet broad-gauge rail line to the Iranian regular-gauge system.

Moscow claims the delays are attributable to inadequacies in the Iranian transportation system. The Iranians, for their part, reportedly believe Moscow is deliberately creating a bottleneck at the border in order to give force to its argument that Iran must open more crossing points, as well as allow the Soviet Union to construct a broad-gauge rail line in Iran opposite a second border crossing point near the Caspian Sea. The Iranians initially refused both requests because of security considerations, but their attitude seems to have softened in recent months.

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